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July 24, 2003

Ms. Bonnie Apodaca, Controller
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Post-it® Fax Note	7671	Date	7/28/03	# of pages	1
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FY2002 FUNCTIONAL SUPPORT COST REPORT (FSCR) PEER REVIEW- SANDIA NATIONAL LABORATORIES (SNL)

Dear Ms. Apodaca:

We have reviewed the Functional Support Cost Report (FSCR) of Sandia National Laboratories (SNL) for FY2002. The purpose of our review was to confirm that the data reported by SNL complied with the guidelines and definitions.

SNL FY2002 Functional Support Cost Report Process

The methodology adopted by SNL in preparing the FY2002 Functional Support Cost Report was based on categorization of their indirect projects into applicable FSCR cost elements. As indirect projects are set-up in their financial system, appropriate FSCR support codes are determined and assigned. Direct funded projects are initially categorized as Mission Direct and then an adjustment is made to move Safeguards and Security cost (B&R "FS") to support category # 16 Safeguards & Security.

Implementation of Recommendations from Previous FSCR Peer Review

The following recommendations made during the last FSCR Peer Review (2/11/99) for FY98 have been implemented:

- Training activities (NETG courses in FY98) in Central Administrative Services have been re-categorized in Human Resources.
- Support cost reported in "Other" have been reduced and categorized in more appropriate support categories.
- Cost for Environmental Impact Support (EIS) reported in Environmental have been examined and reassigned as appropriate.
- Maintenance cost of security system previously reported in Safeguards and Security has been moved to Maintenance.
- Lockheed Martin Support (allowable cost) remains in Management/Award/Incentive Fee.

Implementation of the following recommendations is still pending:

- No cost has been captured in Quality Assurance and Laboratory/Technical Support as previously recommended.

OPTIONAL FORM 99 (7-90)

FAX TRANSMITTAL

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GENERAL SERVICES ADMINISTRATION

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- b. A cost for asbestos abatement remains in Safety & Health. If this cost was for management of the program, it remains in this category. If the cost was for removal, it should be categorized to Maintenance.

Recommendations during the Peer Review

1. Cost of Project Management allocated to Mission Direct should be re-categorized as Program/Project Planning & Control cost.

Team Recommendation: Move \$32.2M of project management cost from Mission Direct to functional support cost category Program/Project Planning & Control.

Site Response: Program Management costs will be moved to Program/Project Planning & Control.

2. A portion of Center Support cost allocated to Mission Direct should be re-categorized to applicable functional support cost category.

Team Recommendation: Move \$5.4M of Center Support Cost Total in Mission Direct to support categories Quality Assurance (\$0.3M), Safety & Health (\$1.7M), Utilities (\$0.1M), Information Services (\$2.7M) and Maintenance (\$0.7M).

Site Response: The identified Center Support costs will be moved to the appropriate functional support category.

3. Capture cost of Quality Assurance.

Team Recommendation: Move \$0.3M in Mission Direct (as described in item 2 above) to Quality Assurance.

Site Response: Addressed in Site Response to item 2 above.

4. Report cost for Laboratory/Technical Support.

Team Recommendation: Move cost of service centers Manufacturing Tech (\$25M) and Calibrations & Instrument Services (\$1M) from Mission Direct to Laboratory/Technical Support.

Site Response: We will review this recommendation with SNL Management and make any changes deemed appropriate.

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5. Cost of waste management service center is in Mission Direct and should be re-categorized to Environmental.

Team Recommendation: Move cost of waste management service center (\$6.1M) from Mission Direct to support cost category Environmental.

Site Response: We will review this recommendation with SNL Management and make any changes deemed appropriate.

6. Cost of central scientific computing service center is in Mission Direct and should be re-categorized to Information Services.

Team Recommendation: Move cost of central scientific computing service center (\$1.2M) from Mission Direct to support cost category Information Services.

Site Response: We will review this recommendation with SNL Management and make any changes deemed appropriate.

7. The guidelines for FSCR indicate that contractors actually performing the work will report costs incurred for work performed between other field offices and DOE contractors. This includes work between contractors at a site and reimbursable inter-contractor work orders. SNL captures cost of ICOs in Mission Direct. This cost should not be reported in SNL's Total Cost.

Team Recommendation: SNL's FSCR cost should not include ICOs in Mission Direct. Exclude cost of \$16.5M in Mission Direct ICOs.

Site Response: ICOs in Mission Direct will be excluded.

8. Cost of upgrading Oracle financial system in Other should be moved to Chief Financial Officer.

Team Recommendation: Move \$0.9M in Oracle upgrade cost from Other to Chief Financial Officer.

Site Response: Oracle upgrade cost will be moved to Chief Financial Officer.

9. Total cost of centralized ES&H functions reported in Safety & Health. Portion of total cost related to Environmental should be reclassified as support cost in Environmental.

Team Recommendation: SNL will determine the amount for environmental related cost and reclassify from Safety & Health to Environmental going forward.

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Site Response: We will evaluate the ES&H costs and make the appropriate reclassifications.

10. Cost reported in Facilities Management with Project Class Codes of Maintenance Service Orders, Facilities Express, Service Contract, Open Service, Express Service Orders and Maintenance should be reclassified as Maintenance cost.

Team Recommendation: Move \$8.8M from Facilities Management to Maintenance.

Site Response: These costs will be moved to Maintenance.

11. Facilities Operations Cost in Maintenance should be re-categorized as Facilities Management cost.

Team Recommendation: Move \$1.1M in Facilities Operations Cost from Maintenance to Facilities Management.

Site Response: These costs will be moved to Facilities Management.

12. Vehicle maintenance cost in Logistics support should be moved to Maintenance support cost. Categorization of vehicle maintenance cost in Maintenance was recommended in FY97 Peer Review and was implemented in FY98. Consistency was not maintained through FY02.

Team Recommendation: Move \$0.8M for vehicle maintenance in Logistics to Maintenance.

Site Response: These costs will be moved to Maintenance.

13. Cost of mail services and postage in Logistics should be reported under Information Services.

Team Recommendation: Move cost of mail services and postage (\$0.7M) from Logistics to Information Services.

Site Response: These costs will be moved to Information Services.

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Accuracy Assessment

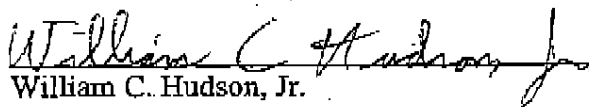
It appears to the Peer Review Team that SNL has met the intent of the FSCR guidelines and definitions resulting in acceptable accuracy of the data.

We would like to thank Ms. Robin Reeves and Mr. Waylon Ferguson for their help and support.



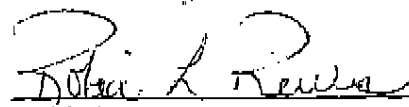
Armando R. Bautista, Jr., Peer Review Team Lead
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7/24/03
Date



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